

COVERT HOUSING COMMISSION
COVERT, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Covert Housing Commission	County
Audit Date 6/30/05	Opinion Date 12/14/05	Date Accountant Report Submitted to State: 1/21/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC			
Street Address 1107 E. Eighth Street	City Traverse City	State MI	ZIP 49686
Accountant Signature <i>Barry E. Gaudette, CPA</i>			Date 1/21/06

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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Covert Housing Commission
Covert, Michigan

I have audited the accompanying financial statements of the business-type activities of the Covert Housing Commission, Michigan, a component unit of the Township of Covert, as of and for the year ended June 30, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Covert Housing Commission, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as amended and interpreted as of June 30, 2005.

Covert Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated December 14, 2005, on my consideration of Covert Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be in considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on page 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that comprise Covert Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sam E. Tardeth, CPA, PC

December 14, 2005

COVERT HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
June 30, 2005
=====

Covert Housing Commission, created in 1980, by the Township of Covert provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Covert Housing Commission consists of two programs. The first is owned housing, consisting of 38 units of public housing and the second is the capital funding program. Covert Housing Commission had total revenues of \$182,656 that includes \$89,816 in rental payments and \$88,320 in federal assistance. Total operating expenses were \$208,681, that includes \$50,478 in administrative expenses, \$34,215 in utilities, \$49,155 in ordinary maintenance expenses, and \$59,260 in depreciation expense. Total revenues decreased by \$556 from the prior year and operating expenses increased by \$7,772 over the prior year for a net decrease of \$8,328, due to increases in administrative and utilities.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$532,548. The Housing Commission's total net assets decreased by \$26,025 from the prior year. The decrease is attributable in part to the depreciation expense of \$59,260.

Total assets of the Housing Commission were \$562,556 including \$195,404 of current assets and \$367,152 of net property and equipment assets. The Housing Commission had current liabilities of \$28,728 and noncurrent liabilities of \$1,280. Assets decreased, in part, by \$16,513 from the prior year due to the depreciation expense of \$59,260 compared to only \$13,159 in capital outlays.

The financial condition of the Housing Commission has not changed materially from the prior year, but the Net Assets did decrease by \$26,025 from the prior year.

COVERT HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

June 30, 2005

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Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Commission's current position

There are no currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes).

Funding levels for operations and capital improvements are expected to remain at current levels, comparable to the past few years. During the current fiscal year we installed a closed circuit security system, repaired damaged asphalt and replaced a boiler. In the next fiscal year there will be a boiler replacement program implemented and a remediation of mold in one of the units. We will continue to provide safe, affordable housing to eligible persons of low income, and will pursue capital improvements in accordance with our five-year and annual plan. Federal Fiscal Year 2005 Capital funds will total \$50,752.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Ramona Boone, Executive Director
P.O. Box 66, Covert, MI 49043

COVERT HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)
June 30, 2005
=====

Financial Analysis of the Housing Commission

The following condensed statement of net assets show a summary of changes for the years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$ 195,404	\$ 165,816	\$ 29,588
Property and equipment	<u>367,152</u>	<u>413,253</u>	<u>(46,101)</u>
Total assets	<u>\$ 562,556</u>	<u>\$ 579,069</u>	<u>\$ (16,513)</u>
Current liabilities	\$ 28,728	\$ 20,496	\$ 8,232
Noncurrent liabilities	<u>1,280</u>	<u></u>	<u>1,280</u>
Total liabilities	<u>30,008</u>	<u>20,496</u>	<u>9,512</u>
Net assets:			
Invested in capital assets	367,152	413,253	(46,101)
Unrestricted net assets	<u>165,396</u>	<u>145,320</u>	<u>20,076</u>
Total net assets	<u>532,548</u>	<u>558,573</u>	<u>(26,025)</u>
Total liabilities and net assets	<u>\$ 562,556</u>	<u>\$ 579,069</u>	<u>\$ (16,513)</u>

COVERT HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)
June 30, 2005
=====

Financial Analysis of the Housing Commission (continued)

The following table summarizes the statement of activities of the Housing Commission for the years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 89,816	\$ 90,372	\$(556)
Total operating revenues	<u>89,816</u>	<u>90,372</u>	<u>(556)</u>
Operating expenses:			
Administration	50,478	35,480	14,998
Tenant services	480	1,389	(909)
Utilities	34,215	29,822	4,393
Ordinary maintenance and operation	49,155	58,987	(9,832)
General expenses	15,093	17,754	(2,661)
Depreciation	<u>59,260</u>	<u>57,477</u>	<u>1,783</u>
Total operating expenses	<u>208,681</u>	<u>200,909</u>	<u>7,772</u>
Operating income(loss)	<u>(118,865)</u>	<u>(110,537)</u>	<u>(8,328)</u>
Non-operating revenue:			
Interest income	1,480	809	671
Other income	3,040	752	2,288
Operating grants	75,161	155,267	(80,106)
Capital grants	<u>13,159</u>	<u>8,918</u>	<u>4,241</u>
Total nonoperating revenue	<u>92,840</u>	<u>165,746</u>	<u>(72,906)</u>
Change in Net Assets	<u><u>\$ (26,025)</u></u>	<u><u>\$ 55,209</u></u>	<u><u>\$ (81,234)</u></u>

FINANCIAL STATEMENTS

COVERT HOUSING COMMISSION
STATEMENT OF NET ASSETS
June 30, 2005
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ASSETS

Current Assets:

Cash	\$ 181,773
Accounts receivable-HUD other projects	5,636
Accounts receivable-dwelling rents	2,317
Allowance for doubtful accounts	(224)
Prepaid expenses	<u>5,902</u>

Total Current Assets	<u>195,404</u>
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Property and Equipment:

Land	21,676
Buildings	1,565,413
Equipment	65,059
Building improvements	<u>308,337</u>
	1,960,485
Less: accumulated depreciation	<u>(1,593,333)</u>

Net Property and Equipment	<u>367,152</u>
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Total Assets	<u>\$ 562,556</u>
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See notes to financial statements

COVERT HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2005
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LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 18,485
Tenant security deposit liability	7,604
Accrued expenses	2,624
Deferred revenues	<u>15</u>
Total Current Liabilities	28,728
Noncurrent Liabilities:	
Accrued compensated absences	<u>1,280</u>
Total Liabilities	<u>30,008</u>
Net Assets:	
Invested in capital assets	367,152
Unrestricted net assets	<u>165,396</u>
Total Net Assets	<u>532,548</u>
Total Liabilities and Net Assets	<u>\$ 562,556</u>

See notes to financial statements

COVERT HOUSING COMMISSION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005
=====

OPERATING REVENUES:

Dwelling rent	\$ 89,816
Total operating revenues	<u>89,816</u>

OPERATING EXPENSES:

Administration	50,478
Tenant services	480
Utilities	34,215
Ordinary maintenance and operation	49,155
General expenses	15,093
Depreciation	<u>59,260</u>
Total operating expenses	<u>208,681</u>
Operating income(loss)	<u>(118,865)</u>

NONOPERATING REVENUES:

Investment interest income	1,480
Other income	3,040
Operating grants	75,161
Capital grants	<u>13,159</u>
Total nonoperating revenues	<u>92,840</u>
Change in net assets	(26,025)

Net assets, beginning	<u>558,573</u>
Net assets, ending	<u>\$ 532,548</u>

See notes to financial statements

COVERT HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2005
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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 88,159
Cash payments to other suppliers of goods and services	(88,216)
Cash payments to employees for services	(43,113)
Cash payments for in lieu of taxes	<u>(5,888)</u>
Net cash (used) by operating activities	<u>(49,058)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Tenant security deposits	(1,094)
Operating grants	82,773
Other revenue	<u>3,040</u>
Net cash provided by noncapital financing activities	<u>84,719</u>

CASH FLOWS FROM CAPITAL AND RELATED

FINANCING ACTIVITIES:

Capital grants	13,159
Payments for capital acquisitions	<u>(13,159)</u>
Net cash (used) by capital and related financing activities	<u> </u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Receipts of interest and dividends	<u>1,480</u>
Net cash provided by investing activities	<u>1,480</u>

Net increase(decrease) in cash	37,141
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Cash, beginning	<u>144,632</u>
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Cash, ending	<u>\$ 181,773</u>
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COVERT HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2005
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RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:

Cash	\$ 181,773
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 181,773</u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(118,865)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	59,260
Bad debt allowance	60
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(1,497)
Prepaid expenses	1,378
Increase (decrease) in liabilities:	
Accounts payable	8,340
Accrued wages/payroll taxes	1,303
Accrued compensated absences	1,705
Accrued payments in lieu of taxes	(582)
Deferred revenues	<u>(160)</u>
Net cash (used) by operating activities	<u>\$(49,058)</u>

See notes to financial statements

COVERT HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Covert Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

Covert Housing Commission is a component unit of the Township of Covert. The Housing Commission is a Public Housing Agency created by the Township of Covert on March 31, 1980, consisting of a five member board appointed by the Township Supervisor and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Covert Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3084, the Housing Commission constructed, maintains and operates 38 units of subsidized housing in the Township of Covert, Michigan.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities,

equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Covert Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other programs" and "due to other programs" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$25 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	20 - 40 years
Furniture, equipment and machinery	5 - 7 years
Building improvements	7 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-

of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave, not taken by employees may be accumulated not to exceed thirty (30) days. An employee who is separated shall receive a one-time payment, minus regular deductions, for unused accumulated vacation leave at his/her current rate of pay.
- * Sick leave, an employee is eligible to receive fifty percent (50%) of his/her accumulated sick leave upon death or retirement; payment will be made at the employee's most current rate of pay; not to exceed thirty-five (35) days.
- * Personal leave, there is not a policy for personal leave.

The amount of accumulated benefits at June 30, 2005, was \$1,705.

Post Employment Benefits

The Housing Commission does not provide a pension plan for eligible full-time employees.

Income Taxes

As a component unit of a Michigan Township, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$181,673 and the bank balance was \$183,853 of which \$183,853 was covered by federal depository insurance. The Housing

Commission has \$50 in petty cash and \$50 in a change fund.

Investments

The Housing Commission did not have any investments.

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At June 30, 2005, the receivables were \$2,317 with \$224 estimated as uncollectible. Bad debt expense was \$60.

Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. There was \$5,636 due from HUD as of June 30, 2005.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There was \$5,636 due from the Capital Fund Program to the Low Rent Program as of June 30, 2005.

Individual fund operating transfers during the fiscal year are as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Low Rent Program	Capital Fund Program	<u>\$ 7,389</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Balance</u> <u>06/30/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>06/30/05</u>
Low Rent Program			
Land	\$ 21,676	\$	\$ 21,676
Buildings	1,565,413		1,565,413
Furniture, equip. & machinery - dwellings	31,814		31,814
Furniture, equip. & machinery - administration	33,245		33,245
Building improvements	<u>286,260</u>		<u>286,260</u>

	1,938,408	\$ _____	\$ _____	1,938,408
Less accumulated depreciation	(1,534,073)	\$ (59,260)	\$ _____	(1,593,333)
Total	\$ 404,335			\$ 345,075

Capital Fund Program

Building improvements	\$ 8,918	\$ 13,159	\$ _____	\$ 22,077
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Combined Totals				\$ 367,152
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NOTE 5: INVESTED IN CAPITAL ASSETS

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in Capital Assets</u>
Balance, beginning (contributed capital)	\$ 413,253
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	(46,101)
Balance, ending	<u>\$ 367,152</u>

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Housing Commission does not have a pension plan.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the

three prior fiscal years.

D. Implementation of New Accounting Standard

As of and for the year ended June 30, 2005, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

NOTE 7: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended June 30, 2005, was as follows:

	Low Rent Program	Capital Fund Program
Condensed Statement of Net Assets		
Current assets	\$ 195,404	\$ 5,636
Property and equipment	345,075	22,077
Total assets	<u>\$ 540,479</u>	<u>\$ 27,713</u>
Current liabilities	\$ 28,728	\$ 5,636
Noncurrent liabilities	1,280	
Total liabilities	<u>30,008</u>	<u>5,636</u>
Net assets:		
Invested in capital assets	345,075	22,077
Unrestricted net assets	165,396	
Total net assets	<u>510,471</u>	<u>22,077</u>
Total liabilities and net assets	<u>\$ 540,479</u>	<u>\$ 27,713</u>
Condensed Statement of Activities		
Dwelling rents	\$ 89,816	\$
Depreciation	(59,260)	
Other operating expenses	(149,421)	
Operating(loss)	<u>(118,865)</u>	
Nonoperating revenues:		
Investment interest income	1,480	
Other income	3,040	
Operating transfers in (out)	7,389	(7,389)
Operating grants	67,772	7,389
Capital grants		13,159
Change in net assets	<u>(39,184)</u>	<u>13,159</u>
Beginning net assets	549,655	8,918
Ending net assets	<u>\$ 510,471</u>	<u>\$ 22,077</u>

Condensed Statement of Cash Flows

Net cash provided(used) by:

Operating activities	\$ (49,058)	\$
Noncapital financing activities	84,719	
Capital and related financing activities		
Investing activities	<u>1,480</u>	<u></u>
Net increase(decrease)	37,141	
Beginning cash and cash equivalents	<u>144,632</u>	<u></u>
Ending cash and cash equivalents	<u>\$ 181,773</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

COVERT HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
June 30, 2005
=====

C-3084	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 181,773	\$
Accounts receivable-HUD other projects		5,636
Accounts receivable-dwelling rents	2,317	
Allowance for doubtful accounts	(224)	
Prepaid expenses	5,902	
Due from other programs	<u>5,636</u>	
Total current assets	<u>195,404</u>	<u>5,636</u>

Property and equipment:

Land	21,676	
Buildings	1,565,413	
Equipment	65,059	
Building improvements	<u>286,260</u>	<u>22,077</u>
	1,938,408	22,077
Less accumulated depreciation	<u>(1,593,333)</u>	

Net property and equipment	<u>345,075</u>	<u>22,077</u>
Total Assets	<u>\$ 540,479</u>	<u>\$ 27,713</u>

Totals

\$ 181,773
5,636
2,317
(224)
5,902
5,636

201,040

21,676
1,565,413
65,059
308,337
1,960,485
(1,593,333)

367,152

\$ 568,192

COVERT HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 June 30, 2005

=====

	C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 18,485	\$
Tenant security deposit liability	7,604	
Accrued expenses	2,624	
Deferred revenues	15	
Due to other programs		<u>5,636</u>
Total current liabilities	28,728	5,636
Noncurrent liabilities:		
Accrued compensated absences	<u>1,280</u>	
Total liabilities	<u>30,008</u>	<u>5,636</u>
Net assets:		
Invested in capital assets	345,075	22,077
Unrestricted net assets	<u>165,396</u>	
Total net assets	<u>510,471</u>	<u>22,077</u>
Total Liabilities and Net Assets	<u>\$ 540,479</u>	<u>\$ 27,713</u>

Totals

\$ 18,485

7,604

2,624

15

5,636

34,364

1,280

35,644

367,152

165,396

532,548

\$ 568,192

COVERT HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended June 30, 2005
 =====

	C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 89,816	\$
Nondwelling rent		
Total operating revenues	<u>89,816</u>	
OPERATING EXPENSES:		
Administration	50,478	
Tenant services	480	
Utilities	34,215	
Ordinary maintenance and operation	49,155	
General expenses	15,093	
Depreciation	<u>59,260</u>	
Total operating expenses	<u>208,681</u>	
Operating income(loss)	<u>(118,865)</u>	
NONOPERATING REVENUES AND (EXPENSES):		
Investment interest income	1,480	
Other income	3,040	
Operating grants	67,772	7,389
Capital grants		13,159
Operating transfers in (out)	<u>7,389</u>	<u>(7,389)</u>
Total nonoperating revenues (expenses)	<u>79,681</u>	<u>13,159</u>
Change in net assets	(39,184)	13,159
Net assets, beginning	<u>549,655</u>	<u>8,918</u>
Net assets, ending	<u>\$ 510,471</u>	<u>\$ 22,077</u>

Totals

\$ 89,816

89,816

50,478

480

34,215

49,155

15,093

59,260

208,681

(118,865)

1,480

3,040

75,161

13,159

92,840

(26,025)

558,573

\$ 532,548

COVERT HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2005
=====

	C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 88,159	\$
Cash payments to other suppliers of goods and services	(88,216)	
Cash payments to employees for services	(43,113)	
Cash payments for in lieu of taxes	<u>(5,888)</u>	
Net cash (used) by operating activities	<u>(49,058)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	(1,094)	
Interprogram receivables/payables	(5,636)	5,636
Operating grants	81,020	1,753
Operating transfers in (out)	7,389	(7,389)
Other revenue	<u>3,040</u>	
Net cash provided by noncapital financing activities	<u>84,719</u>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		13,159
Payments for capital acquisitions		<u>(13,159)</u>
Net cash (used) by capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts of interest and dividends	<u>1,480</u>	
Net cash provided by investing activities	<u>1,480</u>	
Net increase(decrease) in cash	37,141	
Cash, beginning	<u>144,632</u>	
Cash, ending	<u>\$ 181,773</u>	<u>\$</u>

Totals

\$ 88,159

(88,216)

(43,113)

(5,888)

(49,058)

(1,094)

82,773

3,040

84,719

13,159

(13,159)

1,480

1,480

37,141

144,632

\$ 181,773

COVERT HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended June 30, 2005
 =====

C-3084	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
 EQUIVALENTS PER STATEMENT OF
 CASH FLOWS TO THE BALANCE SHEET:**

Cash	\$ 181,773	\$
Restricted cash		
Cash and cash equivalents per balance sheet	<u>\$ 181,773</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME
 TO NET CASH FLOW FROM OPERATING
 ACTIVITIES:**

Operating income(loss)	\$ (118,865)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	59,260	
Bad debt allowance	60	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(1,497)	
Prepaid expenses	1,378	
Increase (decrease) in liabilities:		
Accounts payable	8,340	
Accrued wages/payroll taxes	1,303	
Accrued compensated absences	1,705	
Accrued payments in lieu of taxes	(582)	
Deferred revenues	<u>(160)</u>	
Net cash (used) by operating activities	<u>\$ (49,058)</u>	<u>\$</u>

Totals

\$ 181,773

\$ 181,773

\$ (118,865)

59,260
60

(1,497)
1,378

8,340
1,303
1,705

(582)
(160)

\$ (49,058)

COVERT HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended June 30, 2005
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Fiscal</u> <u>Year</u>	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 67,772
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2005	Capital Fund Program	14.872	<u>20,548</u>
	Total		<u>\$ 88,320</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the
accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

COVERT HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended June 30, 2005

=====

FDS Line Item No.		C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 181,773	\$
100	Total cash	<u>181,773</u>	
	Receivables:		
122	A/R-HUD other projects		5,636
126	A/R-tenants-dwelling rents	2,317	
126.1	Allowance for doubtful accounts	(224)	
120	Total receivables, net of allowance for doubtful accounts	<u>2,093</u>	<u>5,636</u>
	Other Current Assets:		
142	Prepaid expenses and other assets	5,902	
144	Interprogram due from	<u>5,636</u>	
	Total other current assets	<u>11,538</u>	
150	Total current assets	<u>195,404</u>	<u>5,636</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	21,676	
162	Buildings	1,565,413	
163	Furn, equip & mach-dwellings	31,814	
164	Furn, equip & mach-admin.	33,245	
165	Building improvements	286,260	22,077
166	Accumulated depreciation	(1,593,333)	
160	Total fixed assets, net of accumulated depreciation	<u>345,075</u>	<u>22,077</u>
180	Total noncurrent assets	<u>345,075</u>	<u>22,077</u>
190	Total Assets	<u>\$ 540,479</u>	<u>\$ 27,713</u>

Totals

\$ 181,773

181,773

5,636

2,317

(224)

7,729

5,902

5,636

11,538

201,040

21,676

1,565,413

31,814

33,245

308,337

(1,593,333)

367,152

367,152

\$ 568,192

COVERT HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended June 30, 2005
 =====

FDS Line Item No.		C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 8,340	\$
321	Accrued wage/payroll taxes payable	2,199	
322	Accrued compensated absences-current portion	425	
333	Accounts payable-other government	10,145	
341	Tenant security deposits	7,604	
342	Deferred revenues	15	
347	Interprogram due to		<u>5,636</u>
310	Total current liabilities	28,728	5,636
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>1,280</u>	
300	Total liabilities	<u>30,008</u>	<u>5,636</u>
	Equity:		
508.1	Invested in capital assets	<u>345,075</u>	<u>22,077</u>
508	Total equity	345,075	22,077
	Net Assets:		
512.1	Unrestricted net assets	<u>165,396</u>	
513	Total net assets	<u>510,471</u>	<u>22,077</u>
600	Total Liabilities and Equity/Net Assets	<u>\$ 540,479</u>	<u>\$ 27,713</u>

Totals

\$ 8,340

2,199

425

10,145

7,604

15

5,636

34,364

1,280

35,644

367,152

367,152

165,396

532,548

\$ 568,192

COVERT HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended June 30, 2005

FDS Line Item No.		C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 89,816	\$
704	Tenant revenue-other		
705	Total tenant revenue	<u>89,816</u>	<u></u>
706	HUD PHA grants	67,772	7,389
706.1	Capital grants		13,159
711	Investment income-unrestricted	1,480	
715	Other revenue	<u>3,040</u>	<u></u>
700	Total revenue	<u>162,108</u>	<u>20,548</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	19,934	
912	Auditing fees	2,250	
914	Compensated absences	1,705	
915	Employee benefit contributions-adm.	6,052	
916	Other operating-administrative	20,537	
	Tenant Services:		
924	Tenant services-other	480	
	Utilities:		
931	Water	16,598	
932	Electricity	6,392	
933	Gas	11,225	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	15,380	
942	Ordinary maint & oper-mat'ls & other	6,828	
943	Ordinary maint & oper-contract costs	22,192	
945	Employee benefit contributions-ordinary maintenance	4,755	
	General expenses:		
961	Insurance premiums	9,727	
963	Payments in lieu of taxes	5,306	
964	Bad debt-tenant rents	<u>60</u>	<u></u>
969	Total operating expenses	<u>149,421</u>	<u></u>
970	Excess operating revenue over operating expenses	<u>12,687</u>	<u>20,548</u>

Totals
\$ 89,816

89,816
75,161
13,159
1,480
3,040

182,656

19,934
2,250
1,705
6,052
20,537

480

16,598
6,392
11,225

15,380
6,828
22,192

4,755

9,727
5,306
60

149,421

33,235

COVERT HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended June 30, 2005
 =====

FDS Line Item No.		C-3084 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
974	Depreciation expense	<u>59,260</u>	<u> </u>
	Total other expenses	<u>59,260</u>	<u> </u>
900	Total expenses	<u>208,681</u>	<u> </u>
	Excess (deficiency) of operating revenue over (under) expenses before other financing sources (uses)	(46,573)	20,548
	Other Financing Sources (Uses):		
1001	Operating transfers in (out)	<u>7,389</u>	<u>(7,389)</u>
1000	Excess (deficiency) of operating revenue over (under) expenses	(39,184)	13,159
1103	Beginning Net Assets	<u>549,655</u>	<u>8,918</u>
	Ending Net Assets	<u>\$ 510,471</u>	<u>\$ 22,077</u>

Totals

59,260

59,260

208,681

(26,025)

(26,025)

558,573

\$ 532,548

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Covert Housing Commission
Covert, Michigan

I have audited the financial statements of the business-type activities of the Covert Housing Commission, Michigan, (Housing Commission) as of and for the year ended June 30, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated December 14, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated December 14, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws,

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Covert Housing Commission
Page Two

Compliance and Other Matters - Continued

regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated December 14, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Dan E. Faudett, CPA, PC

December 14, 2005

COVERT HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
MARCH 31, 2005
=====

<u>Line Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
--------------------	---------------------	--------------	---------------

LOW RENT PROGRAM

-1-

963	Payments in lieu of taxes \$	5,306.00	
1003	Operating transfers		
	from/to primary		
	government		\$ 5,306.00

COVERT HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

JUNE 30, 2005

COVERT HOUSING COMMISSION
CONTENTS
JUNE 30, 2005

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Management Advisory Comments	4
Adjusting Journal Entries	5

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Covert Housing Commission

I have audited the financial statements of the Covert Housing Commission ("Housing Commission") as of and for the year ended June 30, 2005, and have issued my report, thereon, dated December 14, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There was one audit adjusting journal entry and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustment, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 5 showing the audit adjusting journal entry).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Samy E. Tardeth, CPA, PC

December 14, 2005

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Covert Housing Commission

I have audited the financial statements of the Covert Housing Commission ("Housing Commission") as of and for the year ended June 30, 2005, and have issued my report, thereon, dated December 14, 2005. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

December 14, 2005

COVERT HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS

June 30, 2005

=====

Filing of Invoices

Currently invoices are filed by the month. It was time consuming for me to locate invoices to test.

I recommend that the Housing Commission begin filing the invoices by either check number order or by vendor in alphabet order.

Lowe's Statement

During my test of disbursements, I tested one of the Lowe monthly statement billings. This statement did not have any of the individual invoices attached.

I recommend that the Housing Commission accumulate the invoices for Lowe's during the month and attach them to the monthly statement when paying.

Debit Card

The Housing Commission purchased a debit card during the fiscal year.

I recommend that the Housing Commission switch from a debit card to a credit card for improved controls if not already done.

COVERT HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
June 30, 2005

=====

<u>FDS</u> <u>Line #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			
963	Payments in lieu of		
	taxes	\$ 5,306.01	
1003	Operating transfers		
	from/to primary		
	government		\$ 5,306.01